

PENSION PLAN LIMITATIONS FOR TAX YEAR 2001

WASHINGTON -- The Internal Revenue Service today announced cost-of-living adjustments applicable to dollar limitations for pension plans and other items for Tax Year 2001. However, these limitations may be affected by pending legislation awaiting action by Congress. If this legislation is enacted before the end of the year, some of the cost-of-living adjustments described below may be modified, and the IRS will announce any modifications as soon as possible.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the Commissioner annually adjust these limits for cost-of-living increases.

Effective January 1, 2001, the limitation on the annual benefit under a defined benefit plan under section 415(b)(1)(A) is increased from \$135,000 to \$140,000. For participants who separated from service before January 1, 2001, the limitation for defined benefit plans under section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2000, by 1.0351.

The limitation for defined contribution plans under section 415(c)(1)(A) is increased from \$30,000 to \$35,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of section 415(b)(1)(A). These dollar amounts and the adjusted amounts are as follows:

The limitation under section 402(g)(1) on the exclusion for elective deferrals described in section 402(g)(3) remains unchanged at \$10,500. This limitation affects elective deferrals to § 401(k) plans and to the Federal government's Thrift Savings Plan, among other plans.

The dollar amount under section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$755,000 to \$780,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$150,000 to \$155,000.

(MORE)

The limitation used in the definition of highly compensated employee under section 414(q)(1)(B) remains unchanged at \$85,000.

The annual compensation limit under sections 401(a)(17) and 404(l) remains unchanged at \$170,000. The annual compensation limitation under section 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under section 401(a)(17) to be taken into account, is increased from \$275,000 to \$285,000.

The compensation amount under section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$450. The compensation amount under section 408(k)(3)(C) for SEPs remains unchanged at \$170,000.

The limitation under section 408(p)(2)(A) regarding simple retirement accounts is increased from \$6,000 to \$6,500.

The limitation on deferrals under sections 457(b)(2) and (c)(1) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$8,000 to \$8,500.

The compensation amounts under section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes remains unchanged at \$75,000. The compensation amount under section 1.61-21(f)(5)(iii) is increased from \$150,000 to \$155,000.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.

X X X